



**QUARTERLY REPORT**

for the period

**January – March 2003**

**SEGIR MONGOLIAN PRIVATIZATION PROGRAM**

USAID Contract No PCE-I-00097-00037-00, Delivery Order 800

Submitted to:

**USAID Mission to Mongolia**

**and**

**The State Property Committee, Government of Mongolia**

May 2003

Ulaanbaatar, Mongolia

**COMPONENT 1: MOST VALUED COMPANY (MVC) PRIVATIZATION****Task Manager: Dr. Zhivko Nenov, Chief of Party****EIGHTEENTH PROJECT QUARTER (JANUARY – MARCH 2003):*****Overall Objectives (Note: MVC-specific information is listed with each MVC):******I. General******Objectives:***

- 1 Continue to work towards the successful closing of the privatization of Ag Bank.
- 2 Continue to communicate with the World Bank, IMF and other multilateral donor agencies (ADB, IFC, etc.) regarding the privatization program.
- 3 Continue to work on the development of a privatization tender manual, as well as continue to work with SPC staff to increase their understanding of the privatization tender process.

***Accomplishments and Concerns (Note: MVC-specific information is listed with each MVC):***

- 1 Of particular note, accomplished the successful closing of Agricultural Bank. For more details on Ag Bank, please see the MVC-specific section below.
- 2 Launched the tender for NIC JSC in January 2003. For more details on NIC, please see the MVC-specific section below.
- 3 Continued to provide daily support to the SPC on various issues as they arose for each MVC.
- 4 The team continued to communicate with the World Bank, IMF, and other multilateral donor agencies (ADB, IFC) in order to keep them informed on the status of Mongolia's privatization process.
- 5 Met with representatives of the EBRD and briefed them on the status of the MVC privatization program.
- 6 Continued efforts towards the development of a Privatization Tender Manual, as well as continued to work with SPC staff to increase their understanding of the privatization tender process.

***Objectives for Next Quarter (April – June 2003):***

- 1 Continue to work towards the successful closing of the privatization of NIC.
- 2 Continue to communicate with the World Bank, IMF and other multilateral donor agencies (ADB, IFC, etc.) regarding the privatization program.

- 3 Continue to work on the development of a privatization tender manual, as well as continue to work with SPC staff to increase their understanding of the privatization tender process.

## ***II. Company-Specific Information***

### **NIC**

#### ***Objectives:***

- 1 Continue to provide limited advice to the SPC on the potential launch of the NIC tender, including possible marketing assistance.

#### ***Accomplishments and Concerns:***

- 1 The Cabinet approved NIC's privatization on January 22, 2003. The Tender Announcement and the Rules of Tender were approved as Attachment 1 and Attachment 2 to Government Resolution No. 19. Our team assisted the SPC in the preparation for the launch of the tender, including preparation of the Tender Announcement and Rules of Tender.
- 2 Provided comments on the valuation report for NIC.
- 3 Provided considerable legal support in the periods both preceding and following the launch of NIC's tender (please see the Legal, Regulatory and Policy Framework section of this report for detailed information.)
- 4 Undertook extensive public outreach, marketing and investor communication efforts throughout the quarter in order to publicize the tender for NIC (please see the Public and Investor Communications section of this report for detailed information.)
- 5 Continued working on the finalization of the Information Memorandum in both Mongolian and English languages.

#### ***Objectives for Next Quarter (April – June 2003):***

- 1 Assist the SPC to complete the Application/Expression of Interest and pre-qualification stage for NIC.
- 2 Distribute the Tender Documentation package to pre-qualified Applicants.
- 3 Work with the SPC and pre-qualified Tender Participants to facilitate due diligence reviews.
- 4 Assist the SPC in the finalization of the Shares Sale and Purchase Agreement.
- 5 Provide assistance to the SPC in the evaluation of Tender Proposals and determination of a tender winner. Following this, assist the SPC with the signing of the Shares Sale and Purchase Agreement and conclusion of the Tender.

**Gobi Corporation*****Objectives:***

- 1 Should the Government decide to move forward with steps to re-launch Gobi's tender, provide limited assistance in communication with potential investors, updating the tender documents, etc.

***Accomplishments and Concerns:***

- 1 Assisted the SPC in its correspondence with a potential investor in Gobi.
- 2 Met with Gobi management in order to discuss the Company's 2002 performance and obtain their financial statements for 2002.
- 3 Assisted the SPC in reviewing the valuation report for Gobi and provided recommendations on the determination of a minimum price.

***Objectives for Next Quarter (April – June 2003):***

- 1 As allowed within the constraints of project funding, assist the Government with the re-launch of the tender for Gobi.
- 2 Assist the SPC in its communications with potential investors.

**Trade and Development Bank*****Objectives:***

- 1 Continue to provide support to the SPC in the event that there any remaining issues related to the privatization of TDB. Any such assistance will be primarily of a legal nature.

***Accomplishments and Concerns:***

- 1 Provided some additional legal support following the closing of the TDB transaction (please see the Legal, Regulatory and Policy Framework section of this report for detailed information.)

***Objectives for Next Quarter (April – June 2003):***

- 1 As the tender for TDB has been successfully concluded, there will be no further reporting on this MVC.

## **Ag Bank**

### ***Objectives:***

- 1 Continue to assist the SPC in its communications with Ag Bank Tender Participants, including responding to questions, evaluating proposals, and finalizing Ag Bank's Signing and Closing.
- 2 Continue to provide legal support to the SPC in the preparation of materials for the Signing and Closing of Ag Bank.

### ***Accomplishments and Concerns:***

- 1 By the deadline of January 14, 2003, the SPC received 3 Tender Proposals for Ag Bank. Bidders included H.S. Securities Co. Ltd. of Japan; Alfa Bank Holdings Financial Ltd. of Russia; and a consortium led by Golomt Bank of Mongolia, together with Mongolia's Altan Taria Company and Itochu Corporation of Japan.
- 2 Our team assisted the 5-person Tender Commission (appointed by the SPC in accordance with the Tender Rules and the State and Local Property Law) in their evaluation of the Ag Bank Technical Proposals. On January 17, 2003, all 3 bidders were notified that they passed the Technical Evaluation phase of the Tender and that their Financial Proposals would be opened on January 24, 2003.
- 3 On January 24, 2003 the SPC publicly opened and evaluated the AG Bank Financial Proposals of all 3 bidders. The Tender Commission subsequently announced the evaluation results and H.S. Securities was officially announced as the winner of the tender. On the same day, SPC and H.S. Securities signed the Sale and Purchase Agreement.
- 4 Assisted the SPC and H.S. Securities in discussions of the steps that would be required to achieve a successful closing. This included discussion of the provision of escrow services and tentative timing for signing of the Purchase Price Escrow Agreement, as well as its funding.
- 5 The Government of Mongolia successfully concluded the sale of the state-owned 100% equity interest in the Agricultural Bank of Mongolia. In an official ceremony held on March 25, 2003, the State Property Committee delivered its 100% equity interest in Ag Bank to H.S. Securities Co. Ltd. of Japan in exchange for payment of US \$6.85 million. H.S. Securities also committed additional investment of US \$13 million during the next two to three years.

### ***Objectives for Next Quarter (April – June 2003):***

- 1 Continue to provide support to the SPC in the event that there any remaining issues related to the privatization of Ag Bank. Any such assistance will be primarily of a legal nature.

**Mongol Daatgal (“MDIC”)*****Objectives:***

- 1 Continue to provide technical assistance for Mongol Daatgal, including finalizing the tender documents and assisting the SPC in the launch of the tender.

***Accomplishments and Concerns:***

- 1 Completed the development of the draft MDIC Information Memorandum and translated the document into Mongolian.
- 2 Reviewed and analyzed the Company’s reinsurance debt to determine the current outstanding liabilities. This included working with the SPC and MDIC management to obtain copies of original agreements with creditors and recent correspondence in order to determine the current status of each debt. Based on this information, our team prepared a comprehensive report on amounts due to reinsurers that included a detailed assessment of each debt.
- 3 With advice from our team, MDIC was able to renegotiate some debts and repayment terms. Some debts were fully or partially repaid.
- 4 Developed and submitted to the SPC a report containing privatization options and recommendations for MDIC.
- 5 A Minimum Price Setting Commission was appointed to make a formal recommendation on the minimum selling price for MDIC. The Commission recommended a minimum asking price of USD 1.2 million, consistent with the price recommended by our team.
- 6 Submitted final drafts of the Tender Announcement, Tender Rules and the Tender Timetable to the SPC. SPC approved the documents and prepared a package to be submitted to the Cabinet for discussion and approval.
- 7 Worked with MDIC to prepare a data room for use by Tender Participants. This included compiling appropriate documents for display.
- 8 Continued working with MDIC staff to prepare financial data on an accrual basis. This data will be displayed in the data room and used by auditors for their audit.
- 9 Held a session on accounting for Unearned Premium Reserves and Claims Reserves on accrual basis.
- 10 Started revisions of financial projections to incorporate statutory reserve requirements.
- 11 Continued preliminary marketing and investor outreach efforts for Mongol Daatgal (please see the Public and Investor Communications section of this report for detailed information.)

***Objectives for Next Quarter (April – June 2003):***

- 1 Obtain Cabinet approval for MDIC's privatization.
- 2 Following approval, assist the SPC to launch the tender.
- 3 Publish the Tender Announcement and continue with other marketing and investor outreach efforts.
- 4 Work with the SPC and MDIC to ensure that reinsurance debts continue to be resolved and repaid, whenever possible.
- 5 Complete revision of financial projections.
- 6 Finalize the Information Memorandum in both English and Mongolian.

**Other MVCs**

***Objectives:***

- 1 Continue to discuss with the SPC and USAID plans for additional work on other MVCs.

***Accomplishments and Concerns:***

- 1 Due to the level of assistance provided for Mongol Daatgal, reporting for this MVC is now included in its own section, above.
- 2 Held preliminary discussions with the SPC on possible future work relating to Mongol Telecom.

***Objectives for Next Quarter (April – June 2003):***

- 1 Continue to discuss with the SPC and USAID plans for additional work on other MVCs, including potential effort for Mongol Telecom.

## **COMPONENT 2: SEALED-BID AUCTIONS SUPPORT**

**Task Manager:** Dr. Zhivko Nenov

### **EIGHTEENTH PROJECT QUARTER (JANUARY – MARCH 2003):**

- 1 The Sealed Bid Auction component of the program was successfully completed in July 2000.
- 2 Since September of 1998, Barents has assisted the SPC in the sale of 47 enterprises through sealed bid auctions, raising \$15.4 million in revenues for the budget (see Appendix A for details.)
- 3 The scope of work for this component is complete. There will be no further reporting on this component.



**COMPONENT 3: PUBLIC AND INVESTOR COMMUNICATIONS****EIGHTEENTH PROJECT QUARTER (JANUARY – MARCH 2003):*****Objectives:***

- 1 Continue to assist the SPC in its communications with Ag Bank Tender Participants, including remaining questions prior to the submission of tender proposals.
- 2 Assist the SPC in evaluation of proposals for Ag Bank and in communications both with the Winner of the Tender, as well as with other Tender Participants.
- 3 Continue to coordinate with IFC and ADB regarding their possible participation in the sales of TDB and Ag Bank.
- 4 Continue to develop marketing strategies for Mongol Daatgal, including further development of the potential investor master list and creation of additional marketing materials.
- 5 Should the SPC opt to move forward with a tender launch for NIC, assist the SPC in potential investor outreach and marketing, to the extent possible under current contract funding.
- 6 Assist the SPC with its media relations pertaining to the MVC privatization program.

***Accomplishments and Concerns:***

- 1 In January, issued a reminder letter to Ag Bank Tender Participants regarding the upcoming deadline for Tender Proposals. Also, continued to respond to Tender Participants' requests for clarification prior to the proposal deadline.
- 2 Facilitated discussions between the SPC and the winner of the Ag Bank tender, H.S. Securities of Japan, to move the transaction towards closing.
- 3 Assisted the SPC in the preparation and distribution of multiple press releases on Ag Bank's privatization. These were distributed to Mongolian media as well as to other media outlets worldwide.
- 4 The Tender Announcement for NIC was published in four Mongolian daily newspapers and two Mongolian English language newspaper, as detailed below:
  - Mongolian language newspapers:
    - Daily News (Odiri Sonin), No. 023 (1212), January 28, 2003, Tuesday
    - Today (Onoodor), No. 021 (1759), January 27, 2003, Monday
    - Century News (Zuuni Medee), No. 22 (1220), January 27, 2003, Monday
    - Truth (Unen), No. 018, January 28, 2003
  - English language newspapers:
    - Mongol Messenger, No. 05 (603), Wednesday, January 29, 2003

- The UB Post, No. 05 (350), Thursday, January 30, 2003
- 5 Assisted the SPC to publish a quarter page Tender Notice in the February 8, 2003 issue of *The Economist* magazine.
- 6 Distributed the Tender Announcement for NIC to local Mongolian offices of petroleum companies, foreign diplomatic missions, consulates and trade representatives as well as Mongolian missions in other countries.
- 7 Conducted extensive marketing efforts for NIC, including distributing the Tender Announcement to 86 petroleum and petroleum products distribution companies located both domestically and worldwide, and engaging in follow-up marketing efforts with these companies.
- 8 Marketing efforts for NIC also included meeting with Mr. Kulakov, First Secretary of the Russian Embassy, to discuss potential interest of Russian oil and gas companies.
- 6 Briefed the SPC on the status of NIC marketing efforts each week and maintained a comprehensive Potential Investor master list.
- 7 Continued the development of a Potential Investor master list for Mongol Daatgal.
- 8 Worked on preparing a marketing brochure for Mongol Daatgal.

***Objectives for Next Quarter (April – June 2003):***

- 1 Continue to assist the SPC in its communications with NIC Tender Participants, including responding to any questions prior to the submission of tender proposals.
- 2 Continue marketing and investor outreach efforts for the Mongol Daatgal tender, provided that the tender is launched during the quarter.
- 3 Assist the SPC with limited marketing efforts pertaining to Gobi and/or other MVCs, as possible under current contract funding.
- 4 Assist the SPC with its media relations pertaining to the MVC privatization program.

**COMPONENT 4: LEGAL, REGULATORY AND POLICY FRAMEWORK****EIGHTEENTH PROJECT QUARTER (JANUARY – MARCH 2003):*****Objectives:***

- 1 Provide legal assistance in the evaluation of the tender proposals submitted by Ag Bank Tender Participants.
- 2 Provide legal assistance to the SPC in closing the transaction for the sale of Ag Bank equity:
  - Work on amendment to the Charter of Ag Bank;
  - Work on preparation for shareholders meeting to adopt the amendments to the Charter of the Bank
  - Work on transfer of shares to the Purchaser.
  - Work on Purchase Price Escrow Agreement.
- 3 Provide legal support on issues relating to other MVCs as may arise.

***Accomplishments and Concerns:***

- 1 Worked on drafting the *Joint Instruction for Replacement of Shares* for TDB, sending to both parties the Purchase Price Escrow Agreement for TDB and obtaining approvals from the Purchaser.
- 2 Assisted the Government's Tender Commission to evaluate the 3 Tender Proposals that were received for Ag Bank (from Golomt Bank Consortium, Alfa Bank Holdings Limited, and H.S. Securities Co. Ltd.). This included reviewing the proposals as well as the Sale and Purchase Agreements, to ensure that they were in compliance with the requirements contained in the Tender Rules.
- 3 Assisted in the signing of the Ag Bank Purchase Price Escrow Agreement between the SPC and H.S. Securities, held on January 28, 2003.
- 4 Assisted in all Ag Bank tender correspondence between bidders and the SPC.
- 5 Provided the following legal assistance to the SPC in closing the transaction for the sale of Ag Bank's equity:
  - a. Developed amendments to the Company Charter which were submitted to both the SPC and Ag Bank Board of Directors (BOD) for review. They were subsequently adopted and registered with the State Registration Authority.
  - b. In order to transfer the shares to the Purchaser a sample Shareholder's Ownership Title Certificate and a Shareholder Registry were developed and adopted by the Bank. A draft SPC resolution to transfer the shares to the Purchaser and Ag Bank BOD Resolution to register the transfer in the Shareholder Register were developed and agreed with the Purchaser.
  - c. Developed the following documents:

- (1) Draft Purchase Price Escrow Agreement
  - (2) Draft Joint Escrow Account Disbursement Instruction
  - (3) Draft Closing Memorandum
  - (4) Draft Mongol Bank transaction approval letter
  - (5) Draft legal opinion re Country of Origin Regulatory approval(s) of the acquisition
  - (6) Draft Certificate of Good Standing.
- 6 Developed a legal opinion on the restructuring of Mongol Daatgal, in order to address the company's reinsurance debt.
  - 7 Translated Mongol Daatgal's Charter for inclusion in the dataroom.
  - 8 Assisted in the preparation of the Tender Announcement and Tender Rules for Mongol Daatgal.

***Objectives for Next Quarter (April – June 2003):***

**NIC**

- Based on the review/comments and suggestions made by Tender Participants, propose amendments to the Draft Share Sale and Purchase Agreement for NIC;
- Provide comments/discuss the proposed amendments with the SPC and Tender Participants;
- Prepare and issue a revised Final Share Sale and Purchase Agreement for NIC;
- Assist in the preparation of other associated legal documents for NIC, as provided for in the SSPA, including the Officer's Certificate, as well as the Purchase Price Escrow Agreement;
- Assist the SPC in responding to legal inquiries from bidders during their due diligence review of the company as well as other investor communications that require legal advice.

**Mongol Daatgal**

- Provide legal advice to the SPC and Mongol Daatgal management with respect to the company's reinsurance debt issues;
- Review and advise the SPC on the company charter, Seller's representations and warranties, as well as other legal and regulatory issues and requirements pertaining to this transaction.

**Gobi**

- Obtain comments on the draft Gobi Share Sale and Purchase Agreement (SSPA) from SPC and finalize it;
- Advise on other legal issues pertaining to the privatization of NIC, Mongol Daatgal, Gobi or other MVCs as they arise.

**COMPONENT 5: POST-PRIVATIZATION ASSISTANCE**

**Task Manager:**      **Mr. William Cain, Communications / Post-Privatization Specialist;**  
                              **Mr. Charles Krakoff, Investment Banker**

**EIGHTEENTH PROJECT QUARTER (JANUARY – MARCH 2003):**

- 1    The scope of work for this component is complete. There will be no further reporting on this component.

**OVERALL PROGRAM ADMINISTRATION****Task Manager: Dr. Zhivko Nenov****EIGHTEENTH PROJECT QUARTER (JANUARY – MARCH 2003):*****Objectives:***

- 1 Continue to ensure work oversight/supervision and timely reporting.
- 2 Continue to provide administrative support to the project team.
- 3 Continue to ensure project staffing requirements are fulfilled and staff levels are regularly reviewed.
- 4 Continue to liaise with the USAID Mission Director and other USAID counterparts.
- 5 Continue to follow up with DCAA and USAID regarding the pending project audit.

***Accomplishments and Concerns:***

- 1 Continued to brief the USAID Mission on a regular basis about the project's progress.
- 2 Briefed U.S. Embassy on the status of the project.
- 3 Attended USAID Contractors' meetings to report progress.
- 4 Attended the monthly meetings of the American Mongolian Business Council.
- 5 On January 6, 2003, Ms. Teresa Slazas, Deputy Chief of Party/Marketing Specialist, arrived in Ulaanbaatar.
- 6 On January 11, 2003, Mr. Zhivko Nenov, Chief of Party, returned to Ulaanbaatar from his holiday.
- 7 On January 13, 2003, Mr. Christopher Thompson, Attorney, departed Ulaanbaatar.
- 8 On January 13, 2003, Mr. James Dwyer, Ag Bank and TDB Investment Banker, arrived in Ulaanbaatar.
- 9 On January 31, 2003, Mr. James Dwyer, Ag Bank and TDB Investment Banker, departed Ulaanbaatar.
- 10 On February 14, 2003, Ms. Teresa Slazas, Deputy Chief of Party/Marketing Specialist, departed Ulaanbaatar.
- 11 On February 15, 2003, Mr. Christopher Thompson, Attorney, and Mr. Gordon Dowsley,

Mongol Daatgal Investment Banker, arrived in Ulaanbaatar.

12 On March 1, 2003, Mr. Christopher Thompson, Attorney, departed Ulaanbaatar.

13 On March 17, 2003, Mr. Christopher Thompson, Attorney, arrived in Ulaanbaatar.

14 On March 31, 2003, Mr. Christopher Thompson, Attorney, departed Ulaanbaatar.

***Objectives for Next Quarter (April – June 2003):***

- 1 Continue to ensure work oversight/supervision and timely reporting.
- 2 Continue to provide administrative support to the project team.
- 3 Continue to ensure project staffing requirements are fulfilled and staff levels are regularly reviewed.
- 4 Continue to liaise with the USAID Mission Director and other USAID counterparts.
- 5 Discuss with USAID the SPC's plans for the Mongolian Privatization Program during the second half of 2003/first quarter of 2004, as well as Barents' future participation and funding levels.
- 6 Continue to follow up with USAID regarding the pending project audit.